

STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

DEPARTMENT OF EDUCATION

CAFETERIA FUNDS

AGREED-UPON PROCEDURES ENGAGEMENT

JULY 1, 2006 - JUNE 30, 2007

FIELDWORK END DATE: JUNE 17, 2008

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Independent Accountant's Report
on Applying Agreed-Upon Procedures

The Honorable Valerie A. Woodruff
Secretary
Department of Education
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We have performed the procedures enumerated below, which were agreed to by the Delaware Department of Education (DOE) and the Office of Auditor of Accounts (AOA). The procedures were performed solely to assist the specified parties in evaluating the School Districts' and Charter Schools' compliance with laws and regulations and the effectiveness of internal control over compliance in regard to Cafeteria Funds for the period July 1, 2006 through June 30, 2007.

Procedures were performed for the following School Districts and Charter Schools: Appoquinimink School District, Brandywine School District, Caesar Rodney School District, Delmar School District, Indian River School District, Milford School District, Academy of Dover Charter School, Campus Community Charter School, East Side Charter School, Marion T. Academy Charter School, Maurice J. Moyer Academy, and Providence Creek Academy Charter School. Management of each School District and Charter School is responsible for internal control over compliance and for compliance with those requirements.

This agreed-upon procedures engagement was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our objectives and related procedures were as follows:

Objective #1:

Determine if the District/Charter School has adequate controls over the expenditures and that expenditures charged to the cafeteria fund for Fiscal Year 2007 are allowable expenditures.

Procedures:

1. Interview appropriate District/Charter School officials and document the financial management process for cafeteria funds, including the types of allowable expenditures for the funds.
2. Obtain an ACL download of FY 2007 8300 series expenditures for each District/Charter School.
3. Obtain from the Food Service Supervisor the detail of the cafeteria funds operating accounts and related bank statements for the period July 1, 2006 through June 30, 2007. Detail should include but is not limited to, beginning balances, revenues by transaction, and expenditures by transaction.
4. Select a sample of 10 percent or a maximum of 60 cafeteria funds expenditure transactions (PVs/Checks) processed during FY 2007. Obtain supporting documentation for each item selected and test for the following:
 - Proper authorization and management review;
 - Expenditure had adequate supporting documentation;
 - Expenditure was an allowable cost of the cafeteria program.
5. Obtain an ACL download of all EX, CA, JV and IV transactions charged to cafeteria funds during FY 2007. (NOTE: Non-payroll object codes only; Payroll-related expenditures are excluded from the scope of this engagement.) Select a sample of 10 percent, or a maximum of 60 from this listing and test each item for the following:
 - Proper authorization and management review;
 - Why the transaction was made;
 - Expenditure had adequate supporting documentation;
 - Expenditure was an allowable cost of the cafeteria program.
6. Obtain supporting documentation for the District's/Charter School's indirect cost rate charged to the cafeteria funds, if applicable. Agree the indirect cost rate used by the District/Charter School to the rate authorized by the Department of Education for FY 2007.

Findings:

See Schedule of Findings section of the report.

Objective #2:

Determine if the District/Charter School has adequate internal controls over the revenue generation and collection process to safeguard the State's assets.

Procedures:

1. Interview appropriate District/Charter School officials and document the cafeteria revenue generation and collection process.
2. Obtain an ACL download of FY 2007 8300 series revenues for each District/Charter School.
3. Obtain from the Food Service Supervisor the detail of the cafeteria funds operating accounts (step performed in connection with expenditures test work).
4. Select a sample of 10 percent or a maximum of 60 of cafeteria funds revenue transactions (CRs/Deposits) processed during FY 2007. Obtain supporting documentation for each item selected and test for the following:
 - Proper authorization and management review;
 - Revenue had adequate supporting receipts documentation;

- Deposit total reconciles to daily listing (PCS report) of students receiving meals and amounts collected.
5. Obtain bank reconciliations/statements for December 2006 and June 2007 and test for the following:
 - Ensure the bank reconciliation was completed timely and was reviewed and approved by management;
 - Agree bank balance per the reconciliation to the bank statement;
 - Agree the reconciled book balance to the trial balance and/or checkbook;
 - Review deposits in transit and outstanding checks for propriety to determine they are properly recorded as reconciling items;
 - Review other reconciling items for propriety.
 6. Obtain the District's/Charter School's Meal Benefit Forms and supporting documentation for federal reimbursements for the months of October 2006 and May 2007 and verify for accuracy. Review DOE's desk audit review of eligibility for the District/Charter School and determine if the District/Charter School reported the correct number of eligible students.

Findings:

See Schedule of Findings section of the report.

Objective #3:

Determine if the June 30, 2007 cash balance is adequate but not excessive to support the District's/Charter School's cafeteria function.

Procedures:

1. Interview appropriate District/Charter School officials and document the guidelines or regulations pertaining to cafeteria fund balance requirements.
2. Obtain the District's/Charter School's Bi-Annual Financial Reports submitted to the Department of Education for FY 2007 and verify accuracy. Obtain supporting documentation (DFMS 6/30 Cumulative Statement of Budgetary Activity Account Balance Report [CSBA]) for the cafeteria appropriation and/or bank statements as of June 30) for the District/Charter School June 30 cafeteria fund balance reported to DOE.
3. Recompute the total cafeteria fund balance on hand at June 30, 2007 (DFMS plus external account balances).
4. Calculate the District's/Charter School's monthly operating cost (average of expenditures September through May). Ensure that the ending fund balance does not exceed three months operating costs as allowed by Food and Nutrition Service USDA Regulation §210.14 (b) and (c). If the fund balance is excessive, determine the District's/Charter School's plans for the funds through inquiry of District/Charter School officials and determine if the funds have been appropriately spent for the stated purpose in FY 2008.

Findings:

See Schedule of Findings section of the report.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on internal control over compliance and compliance with specified laws. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Delaware Department of Education and should not be used by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, Department of Finance, and the State Treasurer's Office.

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts
Office of Auditor of Accounts

Engagement fieldwork completed: June 17, 2008

SCHEDULE OF FINDINGS

Objective #1

Determine if the District/Charter School has adequate controls over the expenditures and that expenditures charged to the cafeteria fund for Fiscal Year 2007 are allowable expenditures.

Finding #1 – Policies and Procedures

Criteria

Chapter II of the State of Delaware *Budget and Accounting Manual* states "a well designed system of controls must include written policies and procedures to ensure that each control objective is met." *Internal Control - Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), defines control activities as policies and procedures that help ensure that management's directives are carried out. Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, written policies and procedures need to be established, communicated to employees, and documented. Written policies and procedures help promote effective accounting control over assets, liabilities, revenues, and expenditures.

Condition

The following ten Districts/Charter Schools did not have adequate written policies and procedures for their cafeteria operations:

- Appoquinimink School District
- Caesar Rodney School District
- Delmar School District
- Indian River School District
- Milford School District
- Academy of Dover Charter School
- Campus Community Charter School
- East Side Charter School
- Maurice J. Moyer Academy
- Providence Creek Academy Charter School

Although the Districts/Charter Schools follow federal and State regulations, management is responsible for establishing internal controls through written policies and procedures. Written policies and procedures are beneficial for identifying and ensuring that control objectives are met as well as the training of current and new employees and are a valuable resource in the event an employee leaves the Districts/Charter Schools. Policies and procedures should be updated regularly and include sufficient information to permit an individual who is unfamiliar with cafeteria operations to perform the necessary activities. Documentation is an important aspect of control and communication.

Cause

The Districts/Charter Schools have not adequately documented their policies and procedures for their cafeteria funds operating processes.

SCHEDULE OF FINDINGS

Effect

Processes and policies may not be properly communicated to employees nor consistently followed. There is no assurance that new and existing personnel will have adequate guidance in performing their assigned tasks or that Districts/Charter Schools will be in compliance with applicable laws and regulations. This lack of written procedures increases the risk of loss of funds, theft of assets, and disruption of operations.

Recommendation

The Districts/Charter Schools develop a complete set of internal written policies and procedures to properly and adequately detail the cafeteria fund operating processes incorporating all applicable laws and regulations. The policies and procedures should include, but are not limited to, the following information:

- The identification of positions/individuals who (a) maintain the record of accounts/record the transaction, (b) authorize transactions, (c) reconcile the accounts, and (d) review the reconciliations;
- How accounts are maintained (accounting software, manual ledgers, etc.);
- Detailed procedures related to revenues, cash receipts and deposits, expenditures and cash disbursements, and inventory. For cash receipts, this includes method of documenting cash receipts, custodial duties and responsibilities, physical security requirements, reconciliation procedures, depository procedures and periodic and unannounced cash counts. For cash disbursements, include management/supervisor approval requirements, reconciliation procedures, disbursement guidelines, voiding checks, and investigation of outstanding checks;
- The type/nature of required, supporting documentation;
- A description of required forms (i.e. personal expense reimbursements) and the authorizations necessary for the forms; and
- Incorporation of all applicable laws and regulations.

The policies and procedures should be sufficiently detailed to provide (1) an understanding of a Districts'/Charter Schools' objectives, (2) a basis for training new personnel, (3) a means of communicating common information, (4) a source of information about accounting controls, and (5) a source of information that will aid in providing continuity in the event experienced personnel leave.

Auditee Response

Appoquinimink School District

The District will enhance their already existing Internal Policy & Procedure manual to include a more in-depth section for Nutrition Services, to include areas regarding the Bi-Annual Report, federal reimbursement, school daily deposits, and meal benefit forms. The District already utilizes the Financial Management System (FMS through Data Service), and tracks their 0116 and 8300 through the Delaware Financial Management System (DFMS) for all appropriate expenses and revenues. The District will establish a reconciliation procedure for Nutrition Services to ensure that all transactions are appropriately tracked.

Caesar Rodney School District

The District follows procedures in the State *Budget and Accounting Manual*. The district will review the State manual and document any Child Nutrition policies specific to our district that are not included.

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Delmar School District

Delmar School District has updated the policies provided at the time of the audit to include more detailed information for the processing of the federal reimbursement and Bi-Annual Financial Reports.

Indian River School District (IRSD)

Policy is set by the Board of Education. Procedural information is included in the IRSD Administrative Manual. IRSD will develop a document that will outline responsibilities within the Nutrition Services Office. The template will define transactions, reimbursements, and financial accounting. The template will be complete by August 31, 2008.

Milford School District

The District maintains policies and procedures for district internal controls as well as for internal checking accounts, which includes the child nutrition program. Procedures have been developed to address those areas where more specific written procedures are needed.

Academy of Dover Charter School

Policies and procedures will be written, and at a minimum, address all issues stated above.

Campus Community Charter School

The current policies and procedures will be reviewed and revised as needed. The policies will then be written and filed in the Policies and Procedures Manual.

East Side Charter School (ESCS)

ESCS Nutrition Office will develop its existing policies and procedures to include the above recommended operating processes.

Maurice J. Moyer Charter School

Until July 1, 2008, Moyer contracted with a consulting firm and looked to that firm in connection with these matters. Anticipating a transition commencing July 1, 2008, management completed the State Budget and Management course this past year. Additionally, we have added staff to better manage.

By September 1, 2008, Moyer shall fully comply with the recommendations and ensure that all appropriate staff are properly trained.

Providence Creek Academy Charter School

On June 17, 2008, the Providence Creek Academy Charter School, Inc. Board of Directors approved a Board Policy outlining the procedures and responsibility for the completion of the Bi-Annual Report.

Finding #2 – Expenditure Transactions not Properly Approved

Criteria

The State of Delaware *Budget and Accounting Manual* Chapter II states "transactions are" to be "properly authorized" and further defines authorization as "ensuring that all transactions are approved by management." Furthermore, Chapter VII, B., 1., a., states ". . . Each bill or statement shall be signed in person by 2 of the delegated, including the chief administrative employer."

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Internal Control - Integrated Framework, published by COSO, defines authorization as, "the approval of transactions in accordance with policies and procedures established by management."

Condition

Caesar Rodney School District

Caesar Rodney School District did not have proper cafeteria management authorization for all of the supporting documentation for 30 out of 60 expenditures (PVs/Checks) selected for test work. Although the delivery tickets were reconciled to the invoice by the District office prior to payment, there were missing signatures on the delivery tickets or invoices as evidence of cafeteria management review and approval for payment.

Academy of Dover Charter School

Academy of Dover Charter School did not have proper authorization and management review for 2 out of 14 expenditures (PVs/Checks) selected for test work. One of the PV documents did not have any evidence of sign-off and the other document contained only one signature, rather than the two required by the State of Delaware *Budget and Accounting Manual*. It was also noted that 7 out of 12 expenditures did not have a signature of receipt of goods. Although there is indication that the delivery tickets were reconciled to the invoice by the fiscal office prior to payment, there is no signature on the delivery tickets or invoices as evidence of management review and approval for payment.

Cause

Management does not consistently include signing off on supporting documentation as part of its approval process over disbursements.

Effect

Lack of proper authorization and management approval may result in the payment of unallowable expenditures or for goods and services not received.

Recommendation

The District/Charter School should ensure that supporting documentation for disbursements are signed off by management as evidence of receipt of goods, and proper review, and authorization.

Auditee Response

Caesar Rodney School District

Our policy has always been that all delivery tickets/invoices are to be reconciled with the physical delivery and signed by the manager before the ticket/invoice is sent to the District's Child Nutrition office. We concur that during the audit, there were delivery tickets/invoices missing the cafeteria manager authorization. However, the invoices/delivery tickets are forwarded to us by the managers and had items on the invoices/delivery tickets not been received, there would be further documentation written on them to acknowledge the shortage.

When vendor billing statements are received in the District Child Nutrition office, the delivery tickets/invoices are reconciled with the vendor statement before any payment is made to the vendor. If a delivery ticket/invoice is missing or if there is a discrepancy between the statement and the invoice, the discrepancy is rectified before any payment is made. When correct and complete, payment is approved

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and made to the vendor. The check is signed by the Child Nutrition Supervisor and one other Caesar Rodney administrator.

It is important to note that the Caesar Rodney Child Nutrition program utilizes Quickbook's software and a checking account through a local bank not the Delaware Financial Management System (DFMS). Therefore, unlike DFMS generated payments, there are live signatures on all checks.

In reference to the statement, "30 out of 60 expenditures (PV's/Checks) did not have proper authorization and management review," the 30 expenditures had corresponding invoices/delivery tickets attached. There were invoices that were missing cafeteria manager signatures, but all payments were authorized by the Child Nutrition Supervisor.

It is also important to note that any one of these expenditures (checks) could have multiple invoices/delivery tickets with the corresponding billing statement and if any of the invoices/delivery tickets was missing a signature, this expenditure was included in the 30 cited. For example: the Lankford Sysco payment on July 12, 2007 had 36 invoices/delivery tickets attached to the statement. Of the 36 invoices, 34 had signatures, 2 were missing signatures, but this expenditure was cited as 1 out of the 30.

Payments have always obtained managerial approval before payment was made. Again, this procedure is documented by the fact that the Child Nutrition Supervisor signs the checks.

Based on the recommendation from the auditing group, ALL delivery tickets/invoices will be signed by the cafeteria manager after being reconciled with the delivered order and before being sent to the District office.

Academy of Dover Charter School

As part of the new policy and procedures, a checklist will accompany paperwork to ensure all documentation is reviewed and appropriately signed. This checklist will also serve as a quality control tool.

Finding #3 – Unallowable Expenditures

Criteria

United States Department of Agriculture (USDA) Food and Nutrition Service Program Regulation (CFR) part 210 National School Lunch Program §210.2 states "Nonprofit school food service means all food service operations conducted by the school food authority principally for the benefit of school children, all of the revenue from which is used solely for the operation or improvement of such food services." Food and Nutrition Service USDA Regulation §210.6, *Use of Federal funds* states "State agencies shall use Federal funds made available under the Program to reimburse or make advance payments to school food authorities in connection with lunches and meal supplements served in accordance with the provisions of this part . . . "

Condition

Delmar School District

At Delmar School District, 1 out of 21 expenditure transactions tested (PVs/Checks) was found to be incorrectly allocated to cafeteria funds. The District has 58 phones, two of which are for cafeteria use.

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When the total bill is calculated based on number of phones, the cafeteria funds should have only been charged \$24.20 instead of the flat rate of \$50 used by the District. Therefore, the unallowable portion of the charge is \$25.80.

Milford School District

Milford School District charged a total of \$1,902.55 for bank fees incurred by the Milford Middle School and Milford High School student activity accounts, which are not allocable to the District's cafeteria operations.

Academy of Dover Charter School

At Academy of Dover Charter School, 1 out of 14 expenditures tested was an invoice for waste management services that was incorrectly coded to cafeteria funds in DFMS. The total bill for \$1,081.48 had been correctly coded on the PV document, but was incorrectly entered into DFMS by the School's outside management company.

Maurice J. Moyer Academy

Maurice J. Moyer Academy charged unallowable costs to the cafeteria operations totaling \$5,906.73, which represented 5 out of 42 payment vouchers (PVs) charged to appropriation 0213 in DFMS. These 5 payment vouchers were processed for personal reimbursements for parties, food during the parties, fund raisers, and repair material.

Cause

Due to a lack of monthly reconciliations of PVs to DFMS, the keypunch errors and misallocation of costs were not detected.

Effect

The Districts/Charter Schools charged unallowable expenditures to cafeteria funds; therefore, the funds were not available to support the cafeteria operation.

Recommendation

The Districts/Charter Schools should reimburse the cafeteria fund appropriations for the amount of unallowable expenditures. The Districts/Charter Schools should ensure that only allowable expenditures are paid with cafeteria funds in accordance with the USDA Regulations. In addition, monthly reconciliations of transaction documents and DFMS should be performed to detect coding or allocation errors.

Auditee Response

Delmar School District

Delmar School District has already evaluated the phone bills and will be charging only the direct cost of two lines per billing to the Cafeteria.

Milford School District

The district internal accounts for school activity funds and the child nutrition program were originally established with all banking fees as well as all interest revenues accruing to the child nutrition account. When interest rates were higher, the interest generated was higher than the banking fees and the child

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nutrition program was receiving the net benefit of the difference. With the current low interest rate levels, the banking fees are now in excess of the interest revenues. After speaking with the State Treasurer's Office, the district will now consolidate its internal accounts with the state program that allows for a no fee and no interest account. This change will eliminate any future service fees accruing to the child nutrition program.

Academy of Dover Charter School

This issue has been taken up with the management company (ISDC), and with pending Board approval, the cafeteria fund will be reimbursed 30% of \$1,081.48. The bulk of waste generated at the Academy is generated from the cafeteria.

Maurice J. Moyer Academy

Moyer shall reimburse the cafeteria operations \$5,906.73. Further, Moyer shall implement policies and procedures to ensure that only allowable expenditures are paid through the cafeteria fund in accordance with the USDA and DOE regulations. However, the transactions in question were coded incorrectly to object code (5643) food service, but were not paid from appropriation (8002) Cafeteria Funds. To that extent we will reconcile the accounts accordingly.

Finding #4 – Unallowable Transfer and Use of Cafeteria Funds

Criteria

United States Department of Agriculture (USDA) Food and Nutrition Service Program Regulations (CFR) part 210 National School Lunch Program §210.2 states "Nonprofit school food service means all food service operations conducted by the school food authority principally for the benefit of school children, all of the revenue from which is used solely for the operation or improvement of such food services." Food and Nutrition Service USDA Regulation §210.6, *Use of Federal funds* states "State agencies shall use Federal funds made available under the Program to reimburse or make advance payments to school food authorities in connection with lunches and meal supplements served in accordance with the provisions of this part . . ."

Condition

Caesar Rodney School District

In Fiscal Year 2005, Caesar Rodney School District improperly borrowed \$300,000 from their cafeteria operations account (held outside of DFMS) to fund current operating expenses, which should have been funded using the District's local operating funds. The District subsequently paid back the \$300,000 to the cafeteria operations account during Fiscal Year 2007. These reimbursements were reviewed as part of AOA's procedures performed over cash receipts.

Cause

The prior administration made a decision to pay costs associated with other programs using a portion of the cafeteria funds instead of utilizing the appropriate funds.

Effect

Funds were not available to support the cafeteria operation for Fiscal Year 2006 and part of Fiscal Year 2007.

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Recommendation

The District should ensure that only allowable expenditures are paid with cafeteria funds in accordance with the USDA Regulations.

Auditee Response

Caesar Rodney School District

The loan of \$300,000 from cafeteria funds to the CRSD occurred in FY 2005 by the prior district administration. In FY 2007, the current Finance Director and the current Supervisor of Child Nutrition discussed the appropriateness of the loan and agreed the loan was inappropriate. The loan was repaid. The current district administration only allows expenditures through the cafeteria funds in accordance with the USDA regulations.

Finding #5 – Lack of Segregation of Duties

Criteria

The State of Delaware *Budget and Accounting Manual*, Chapter II, states ". . . The segregation of duties divides the responsibility for a transaction or activity among different parties so that no one employee has complete control over the processing of transactions. This method of control increases the likelihood that if one person makes an error, another will discover it. Segregation of duties also reduces the risk that one person would perpetrate and/or conceal errors in the normal course of his or her duties."

Condition

Caesar Rodney School District

The District has a lack of segregation of duties in its cafeteria operations, as the same employee is responsible for recording the transactions and performing the reconciliations.

East Side Charter School

The Charter School has a lack of segregation of duties in its cafeteria operations, as the payment vouchers (PVs) and cash receipts (CRs) are entered into DFMS by the Business Manager and also approved by the Business Manager.

Cause

There is a lack of segregation of duties due to staff allocation issues.

Effect

A lack of segregation of duties increases the risk of errors and misappropriations.

Recommendation

The District and Charter School should improve controls by separating key duties or by increasing supervision and oversight of certain activities.

Auditee Response

Caesar Rodney School District

The Child Nutrition Supervisor now opens, reviews, and signs all bank statements prior to reconciliation and signs off on reconciliation statement when completed. The Child Nutrition Supervisor reviews

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documents on a monthly basis in preparation of the Department of Education's Bi-Annual Financial Report for School Lunch Program, Breakfast Program. The Bi-Annual Report is a very comprehensive report detailing all financial aspects of the Child Nutrition Program. This monthly review is done consistently throughout the year, which we consider segregation of duties.

In addition to Supervisor controls, one Child Nutrition secretary prepares bills for payment, while another secretary prepares the checks for payment. Checks are signed by the Child Nutrition Supervisor and an additional District Office administrator before being mailed to the vendor.

East Side Charter School

ESCS Nutrition Office will review its current practices for financial management and establish more segregated duties and/or increase the current supervision and oversight of the activities involved.

Finding #6 – Cafeteria Expenditures Included with General Operations

Criteria

In accordance with Food Nutrition Service, USDA Regulations, §210.14(a) states "Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service . . . Expenditures of nonprofit school food service revenues shall be in accordance with the financial management system established by the State agency under §210.19(a) of this part . . ."

DOE School Year 2006-2007 Operational Memo #11-*Submission of Financial Reports Required by Federal Regulations* states "sufficient records must be kept to prove the independence of the account and that there is no diversion to any non-school food service activity."

The State of Delaware *Budget and Accounting Manual*, Chapter VIII, Section A.3 states ". . . School Cafeteria Funds shall be maintained as a Special Fund Account under the custody of the State Treasurer or as an agency account in a safe depository selected by the school district . . ."

Condition

Maurice J. Moyer Academy

At Maurice J. Moyer Academy, cafeteria expenditures are not segregated from the general operations accounts in DFMS. The School's outside management company is using the general operations appropriations (0213 and 8000) to account for cafeteria expenditure activity. Since the Charter School did not account for cafeteria operations separately from its general operations, AOA could not determine the true population of transactions including if there were any EX, IV, JV, or CA transactions related to cafeteria funds for Fiscal Year 2007.

Cause

The Charter School does not maintain a separate appropriation in DFMS for their cafeteria operations and did not instruct their outside management company to ensure these funds are accounted for distinctly from general operations.

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Effect

The Charter School cannot accurately complete the Bi-Annual Financial Reports to submit to DOE and AOA could not recalculate the June 30, 2007 closing cash balance. In addition, since the cafeteria expenditures were not segregated, AOA may not have the full population of cafeteria expenditures for testing purposes.

Recommendation

The Charter School should establish separate accounting for their cafeteria operations to be distinct from the general operations and to ensure compliance with federal and State regulations.

Auditee Response

Maurice J. Moyer Academy

Again, we have reconstructed management and brought all duties and responsibilities in-house. Moyer shall fully account for all cafeteria revenues and expenditures separately from the general operations to ensure compliance with all federal and State Regulations.

Finding #7 – No Supporting Documentation for Journal Entries

Criteria

The State of Delaware *Budget and Accounting Manual*, Chapter VII states "All invoices, bills, statements, letters, vouchers and other documents pertaining to disbursements shall be preserved and systematically filed by each agency."

Condition

Academy of Dover Charter School

Academy of Dover Charter School was unable to provide adequate supporting documentation for 1 Intergovernmental Voucher (IV) transaction selected for test work. AOA noted that there were 4 journal entries (CX/EX/IV documents) processed by the School using cafeteria funds during Fiscal Year 2007. Due to the lack of documentation, AOA was unable to verify if the document was accurate, approved by management, and an allowable expenditure of cafeteria funds.

Cause

Documents were unable to be obtained from the Charter School's management company and they were not maintained at the Charter School.

Effect

Lack of adequate supporting documentation may raise questions about the validity and integrity of the transaction and increases the possibility that unauthorized or inaccurate transactions may be processed.

Recommendation

Academy of Dover Charter School should ensure that appropriate, sufficient supporting documentation is maintained for all transactions processed in DFMS.

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Auditee Response

Academy of Dover Charter School

This issue has been discussed with ISDC and a procedure will be put in place to ensure that all documentation is appropriately distributed and maintained.

Finding #8 – Lack of DFMS Reconciliations

Criteria

The State of Delaware *Budget and Accounting Manual*, Chapter XII, Section C.4 *Weekly Reconciliation* states "Using the Holding File, check each payment voucher and purchase order against the Budgetary Activity Report. Do the same for personnel costs, cash receipts, expenditure corrections, intergovernmental vouchers and transfers. Documents which are dated late in the month and do not appear on the Budgetary Activity Report are returned to the Holding file. If documents do not process as expected, please contact Division of Accounting. Documents that appear on the Budgetary Activity Report are filed in the Reconciliation File." The State of Delaware *Budget and Accounting Manual*, Chapter XII, Section C.5 *End-of-Month Reconciliation* states "The Holding file should be purged at the end of each month. Payment vouchers and purchase orders must be checked against the budgetary activity. Do the same for the personnel costs, cash receipts, expenditure corrections, intergovernmental vouchers and transfers. Documents that do not appear on the Budgetary Activity Report are filed in the Holding File. Documents that do appear on the Budgetary Activity Report are filed in a Reconciliation File by month. This file contains budgetary activity, financial documents and a copy of reconciliation."

Condition

Maurice J. Moyer Academy

Maurice J. Moyer Academy does not reconcile its cafeteria funds expenditures, cash receipts or the Bi-Annual Financial Reports to the DFMS reports that are provided monthly by its outside management company.

Cause

The Charter School does not have policies and procedures in place to ensure that proper reconciliations of DFMS activity are being performed.

Effect

If reconciliations of DFMS activity are not being performed, the Charter School cannot ensure the accuracy of amounts reported in DFMS or the Bi-Annual Financial Reports submitted to DOE and increases the likelihood of reporting inaccurate cash balances in the Bi-Annual Financial Reports.

Recommendation

Maurice J. Moyer Academy should reconcile all cafeteria expenditures and cash receipts to DFMS in accordance with State of Delaware *Budget and Accounting Manual* policies.

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Auditee Response

Maurice J. Moyer Academy

Maurice J. Moyer Academy shall reconcile all cafeteria expenditures and cash receipts to DFMS in accordance with the State of Delaware *Budget and Accounting Manual* policies.

Objective #2

Determine if the District/Charter School has adequate internal controls over the revenue generation and collection process to safeguard the State's assets.

Finding #9 – Revenue Transactions not Properly Approved

Criteria

The State of Delaware *Budget and Accounting Manual* Chapter II states "transactions are" to be "properly authorized" and further defines authorization as "ensuring that all transactions are approved by management."

Internal Control - Integrated Framework, published by COSO, defines authorization as, "the approval of transactions in accordance with policies and procedures established by management."

Condition

Brandywine School District

Of 60 daily deposit slip reports tested, 41 did not have proper authorization but had proper management review. Cafeteria management utilizes daily deposit slip reports from the PCS system when preparing the daily deposit slip. Although it was found that management was reviewing the supporting documentation to make sure the deposits were complete and accurate, the documentation did not include a sign-off by management as evidence of proper approval.

Caesar Rodney School District

Of 60 daily deposit slip reports tested, 46 were not properly authorized by cafeteria management. Cafeteria management was reviewing the daily deposit slip reports to make sure the deposits were complete and accurate; however, 46 of the 60 daily deposit slip reports sampled did not include a sign-off by management as evidence of proper approval. AOA noted that beginning in April 2007 the daily deposit slip reports were being signed off by both the cafeteria manager and their assistant, if applicable.

Delmar School District

Of 26 cash receipts (CRs/Deposits) tested, 24 did not have adequate evidence of management review. According to the District's cash receipt process, management review of the deposits and supporting information was occurring; however, written documentation of the review was not maintained.

Indian River School District

Of 60 cash receipts tested, 58 did not have adequate evidence of management review. According to the District's cash receipt process, management review of the deposits and supporting information was occurring; however, written documentation of the review was not maintained.

SCHEDULE OF FINDINGS

Milford School District

Of 60 cash receipts tested, 59 did not have adequate evidence of management review. According to the District's cash receipt process, management review of the deposits and supporting information was occurring; however, written documentation of the review was not maintained.

Academy of Dover Charter School

Of 20 cash receipts tested, 19 did not have adequate evidence of management review. According to Charter School's cash receipt process, management review of the deposits and supporting information was occurring; however, written documentation of the review was not maintained.

Campus Community Charter School

Of 60 cash receipts tested, 48 did not have adequate evidence of management review. According to the Charter School's cash receipt process, management review of the deposits and supporting information was occurring; however, written documentation of the review was not maintained.

Cause

Management does not consistently include signing off on supporting documentation as part of its approval process over receipts.

Effect

Lack of proper authorization and management approval of the daily deposit slip reports or cash receipts may result in inaccurate deposits.

Recommendation

The Districts and Charter Schools should evidence management's review of the deposits by initialing and dating the supporting documentation.

Auditee Response

Brandywine School District

Effective May 1, 2008, School Nutrition Managers and Leads were given a directive to print three (3) copies of the "Deposit Slip Report", to sign all 3 copies, and attach one of the 3-ply "Deposit Slip" to each "Deposit Slip Report". One copy will go into the bank bag along with the check report, one will remain in their respective office and one copy will be sent to the District Office on a daily basis. The updated bank procedure can be found under the banking section, Operations and Orientation Manual in District Office.

Caesar Rodney School District

Even though prior to April 2007 our deposit slips didn't have written signatures as evidence of cafeteria management approval, our deposit procedure goes above and beyond a signature on the deposit slips, which is demonstrated by our deposit procedure below.

The Cafeteria Manager prepares the deposits at the school after performing the "day end procedure" in our meal computer program (information is downloaded directly from the cash registers), they take the deposit to the bank, wait at the bank while the teller counts the deposit in their presence, and the total deposit is agreed upon by both the cafeteria manager and the bank teller. Any discrepancies are resolved before the manager leaves the bank teller window.

SCHEDULE OF FINDINGS

Our deposit procedure prevents the chance of a deposit being lost, stolen, or counted incorrectly at the bank. Also, the manager is present while the deposit is counted in order to "defend" the deposit amount listed on the deposit slip if the need arises.

After being sent to the District Office, all school cafeteria deposit slips are reconciled by the Child Nutrition office by comparing the computer generated deposit information that is downloaded electronically to the district office from the school's computer daily to the bank deposit slip, thus providing further authorization.

Delmar School District

The Cafeteria manager will sign and date the daily revenue sheet after reviewing the deposit.

Indian River School District

Cafeterias will print a daily deposit log from our revenue control system. Each cashier as well as the cafeteria manager will sign attesting the amount of money required is present and deposited. The records will be maintained in the cafeteria office.

Milford School District

The District's written procedures will be adhered to for the cash collections made on behalf of the Child Nutrition Program.

Academy of Dover Charter School

A policy pertaining to the handling of funds will be created, and the responsibility for appropriate accounting will fall on the Academy Principal and their Administrative Assistant.

Campus Community Charter School

The daily deposits for both the a la carte and the student's lunch will be reviewed and a signature will be on the deposit slip. The deposit journal amounts will correspond with the daily deposit slips that are signed.

Finding #10 - Lack of Management Review of Bank Reconciliations and Federal Reimbursements

Criteria

The State of Delaware *Budget and Accounting Manual* Chapter II states "transactions are" to be "properly authorized" and further defines authorization as "ensuring that all transactions are approved by management" and "reconciliation controls are designed to detect if two items are consistent and are an integrated part of any internal control structure."

Internal Control - Integrated Framework, published by COSO, defines authorization as, "the approval of transactions in accordance with policies and procedures established by management."

Condition

Caesar Rodney School District

In reviewing two monthly bank reconciliations (for December 2006 and June 2007), AOA found that neither of the reconciliations had indication of review or approval by management. However, the

SCHEDULE OF FINDINGS

balances for the statements, reconciliations, and general ledgers were in agreement for both months tested.

Delmar School District

AOA reviewed two monthly bank reconciliations (for December 2006 and June 2007) and two federal reimbursements (for the months of October 2006 and May 2007), and found that none of the documents indicated review or approval by management. However, the forms were all in agreement with records and no errors were found with the bank reconciliations or federal reimbursements.

Indian River School District

AOA reviewed four monthly bank reconciliations (for December 2006 and June 2007 – two bank accounts each) and found that two of the reconciliations tested indicated no review or approval by management. It was also noted that one of the four bank reconciliations was not completed in a timely manner. However, the balances for the statements, reconciliations, and general ledgers were in agreement for both months tested.

Academy of Dover Charter School

In reviewing the two monthly bank reconciliations, AOA found that the December 14, 2006 through January 12, 2007 bank reconciliation was signed by management but was not dated. Due to this oversight, the timeliness of the reconciliation could not be determined. No reconciliation was completed for the June 14, 2007 through July 13, 2007 statement, as management believed the account was closed. However, per review of the bank statement, there was still a balance of \$255.85 in the account. Neither of the register balances at December 2006 and June 2007 could be verified since the school did not maintain an account register. In addition, two pre-signed checks were found in the School's checkbook.

Cause

Management does not include a second level of review or sign-offs as part of their internal control process over bank reconciliations or federal reimbursements.

Effect

Untimely preparation and review of reconciliations could result in untimely identification and resolution of errors and/or inappropriate transactions. Lack of proper authorization and management approval may result in errors, theft of funds, or loss of federal money. In addition, pre-signed unlocked checks could result in the loss of school funds.

Recommendation

Management should sign off on all reconciliations, federal reimbursements, and supporting documentation indicating their review. All reconciliations should be prepared in a timely manner. In addition, pre-signed checks should not be permitted and any existing pre-signed checks should be destroyed.

Auditee Response

Caesar Rodney School District

The Child Nutrition Supervisor now opens, reviews, and signs all bank statements prior to reconciliation and signs off on reconciliation statement when completed.

SCHEDULE OF FINDINGS

Delmar School District

The Business Manager for Delmar School District will review all bank reconciliations and reimbursements on a monthly basis.

Indian River School District

IRSD was without a Nutrition Services Supervisor during the time of the aforementioned bank statements. Management will review and ensure all bank reconciliations are signed and prepared in a timely manner.

Academy of Dover Charter School

Policies and procedures are being created to ensure all documents are properly annotated and that all paperwork is processed in a timely manner.

Finding #11 – Lack of Supporting Documentation for Deposits

Criteria

The State of Delaware *Budget and Accounting Manual*, Chapter VIII, Section C, states ". . . All invoices, bills, statements, letters, vouchers and other documents pertaining to these receipts shall be preserved and systematically filed by each agency (29 Del. C. §6504)."

The State of Delaware *Budget and Accounting Manual* Chapter VIII, Section C states "Each agency shall keep a detailed ledger of all receipts under such appropriate headings, classifications and arrangements as prescribed by the Budget Director (i.e., budget unit, appropriation and revenue code). All invoices, bills, statements, letters, vouchers and other documents pertaining to these receipts shall be preserved and systematically filed by each agency (29 Del. C. §6504)."

The State of Delaware *Budget and Accounting Manual* Chapter II states "transactions are" to be "properly authorized" and further defines authorization as "ensuring that all transactions are approved by management." *Internal Control - Integrated Framework*, published by COSO, defines authorization as, "the approval of transactions in accordance with policies and procedures established by management."

Condition

Appoquinimink School District

For 2 out of 8 cash receipts (CRs/Deposits) selected for test work, the District could not locate the supporting documents to provide to AOA. The missing documents were 2 CRs totaling \$72,212.54.

Academy of Dover Charter School

For 5 out of 20 cash receipts (CRs/Deposits) selected for test work, the Charter School could not locate the supporting documents to provide to AOA. The missing documents were 5 deposits totaling \$532.85.

Marion T. Academy Charter School

The Charter School was missing the validated deposit slips that supported the federal reimbursements for the months of October 2006 and May 2007.

SCHEDULE OF FINDINGS

Maurice J. Moyer Academy

Maurice J. Moyer Academy had 1 cash receipt (CR) that was partially unsupported. The total CR was for \$21,002.78 of which \$17,866.54 was for cafeteria federal reimbursements and the remaining \$3,136.24 was unidentified and unsupported. The \$3,136.24 was applied to cafeteria but the Charter School could not provide any support for the amount.

Cause

Adequate record keeping and documentation of management review was not being maintained.

Effect

Lack of proper documentation, proper authorization, and management approval increases the risk of theft, misappropriation of assets, and inaccurate deposits.

Recommendation

The Districts/Charter Schools should ensure that supporting documentation is maintained for every cash receipt transaction in accordance with the State of Delaware *Budget and Accounting Manual*.

Auditee Response

Appoquinimink School District

The District maintains copies of all Cash Receipts in both the Finance Department and the Nutrition Services Section. Both areas have a copy of CR 95565697 (\$65,494.44); and CR#95565770 (\$6,718.10) replaced document CR#29000000070 (which was deleted out of the system), and both the District and Division of Accounting have a copy of the OMS document. Neither the District nor the Division of Accounting has a copy of CR#95565770. The District does strive to ensure that all documents are accounted for, and that the financial data integrity and policy and procedures are supported and followed by all personnel.

Academy of Dover Charter School

A policy pertaining to the handling of funds will be created, and the responsibility for appropriate accounting will fall on the Academy Principal and their Administrative Assistant.

Marion T. Academy Charter School

The deposit was made and accounted for as a cash receipt with DFMS, however the documents were not properly re-filed after an internal review by staff. The documents were created but could not be located due to staff turnover. However, we agree with the auditor's recommendation.

Maurice J. Moyer Academy

Again, the same general management statement is noted as in Finding #1 response. Adequate supporting documentation shall be maintained for every cash receipt transaction.

Finding #12 – Untimely Deposits

Criteria

According to the State of Delaware *Budget and Accounting Manual*, Chapter VIII, Section B.1, "All monies which belong to the State are to be deposited on the day of receipt to the credit of the State

SCHEDULE OF FINDINGS

Treasurer in the designated depository of the State's funds, with the exception of those funds received after the close of normal banking hours or when an agency receives less than \$100 in daily receipts. Those agencies which do receive less than \$100 in daily receipts, shall make a deposit when the accumulated undeposited receipts exceed \$100 or on a weekly basis, whichever occurs first. When monies are received after the close of normal banking hours, they shall be deposited on the next business day. However, if the receipts are of a significant magnitude, arrangements should be made for after-hours deposit (29 Del. C. §6103)."

The DOE School Year 2006-2007 *Agreement for Participation in National School Lunch, School Breakfast and After School Snack Programs* states "submit claims for reimbursements by the 10th of each month for the preceding month in accordance with procedures established by the Department and prescribed in Section 210.8, Section 210.9(b)(8) and Section 220.7(e)(7)."

Condition

Academy of Dover Charter School

For 4 of the 20 cash receipts (CRs/Deposits) selected for test work, the Charter School did not deposit the funds within one week of receipt, as required by the State of Delaware *Budget and Accounting Manual*.

Maurice J. Moyer Academy

The Charter School was not depositing the monthly federal reimbursements within one week of receipt. In addition, \$26,837.48 of the federal reimbursement deposits was not recorded in DFMS. The following table details the timing and recording of the federal reimbursements received during Fiscal Year 2007:

Month of Federal Reimbursement	Amount of Federal Reimbursement	Date Federal Reimbursement Sent by DOE	Date of Deposit Per Validated Deposit Slip	Date Federal Reimbursement Recorded in DFMS
August 2006	\$1,332.15	November 8, 2006	Not provided	January 18, 2007
September 2006	\$6,282.68	October 15, 2007	Not provided	November 08, 2007
October 2006	\$7,122.43	July 27, 2007	August 14, 2007	Not Recorded in DFMS
November 2006	Late claim not approved by DOE			
December 2006	\$5,653.17	March 22, 2007	May 4, 2007	May 9, 2007
January 2007	\$6,255.44	March 22, 2007	May 4, 2007	May 9, 2007
February 2007	\$5,957.93	April 25, 2007	May 4, 2007	May 9, 2007
March 2007	\$5,290.60	June 15, 2007	July 2, 2007	Not Recorded in DFMS
April 2007	\$6,499.68	June, 15, 2007	July 2, 2007	Not Recorded in DFMS
May 2007	\$7,530.31	June 19, 2007	July 2, 2007	Not Recorded in DFMS
June 2007	\$394.46	July 25, 2007	August 14, 2007	Not Recorded in DFMS
Total	\$52,318.85			

Cause

The Charter Schools have not established adequate procedures and internal controls over the revenue generation and collection process for paid and reduced meals.

SCHEDULE OF FINDINGS

Effect

A lack of timely deposits increases the risk of theft and misappropriation of assets.

Recommendation

The Charter Schools comply with the requirements of the State of Delaware *Budget and Accounting Manual* and ensure that the deposits are made on the date of receipt or the following day if the funds were received after the close of normal banking hours. In addition, the Charter Schools should submit the

federal reimbursement claims to the Department of Education in a timely manner. The Charter Schools should ensure that their staff is aware of the requirements and acceptable practices for handling cash receipts.

In addition, Maurice J. Moyer Academy should establish procedures relating to the timely collection of revenue for paid and reduced meals. In the case of no payments, the Charter School should consider a means to enforce payment.

Auditee Response

Academy of Dover Charter School

Policy and procedure for the handling of funds will be created and implemented.

Maurice J. Moyer Academy

Maurice J. Moyer Academy shall ensure that all deposits are made on the date of receipt or the following day if the funds are received after the close of normal banking hours.

The federal reimbursements that were not recorded in DFMS were deposited in Fiscal Year 2008.

In addition, Maurice J. Moyer Academy shall submit all federal reimbursements to the Department of Education in a timely manner.

Finding #13 – Safeguarding of State Assets

Criteria

The State of Delaware *Budget and Accounting Manual*, Chapter I states "Department or agency heads are responsible for establishing and maintaining an effective system of internal control. Such departmental policies/procedures shall be in writing, and will reasonably ensure that all assets can be accounted for and safeguarded against waste, loss, unauthorized use and misappropriation."

Condition

Caesar Rodney School District

While interviewing the District personnel at Caesar Rodney School District, it was noted that the District Office receives checks and cash, and they are kept in an unlocked desk. The District Office also stores blank checks in an unlocked filing cabinet.

Cause

Management does not maintain the assets in a locked file cabinet or drawer.

SCHEDULE OF FINDINGS

Effect

Because management does not maintain the assets in a locked file cabinet or drawer, there is a possibility of loss, unauthorized use and misappropriation.

Recommendation

Management should lock cash and checks in a file cabinet or drawer until they are deposited in the bank, and unused checks should be stored in a locked file cabinet or drawer for safekeeping.

Auditee Response

Caesar Rodney School District

We would like to note that it has always been our policy that all checks received in the District Child Nutrition office are immediately stamped with "For Deposit Only" with the bank account number, reconciled with the appropriate bill, and its receipt recorded. Checks deposits are made as quickly as possible. All cash receipts are reconciled with the appropriate bill, and its receipt recorded. All cash deposits (we receive cash very rarely) are made the day the cash is received.

Based on the recommendation from the auditing group, all checks and cash received in the district Child Nutrition office to be deposited are stored in a locked drawer at all times while awaiting deposit. New/unused checks used for payments to vendors are stored in a locked drawer.

Objective #3

Determine if the June 30, 2007 cash balance is adequate but not excessive to support the District's/Charter School's cafeteria function.

Finding #14 – Bi-Annual Financial Reports

Criteria

United States Department of Agriculture (USDA) Food and Nutrition Service Program Regulations (CFR) part 210 National School Lunch Program (NSLP) §210.2 states "Nonprofit school food service means all food service operations conducted by the school food authority principally for the benefit of school children, all of the revenue from which is used solely for the operation or improvement of such food services."

DOE School Year 2006-2007 Operational Memo #11- *Submission of Financial Reports Required by Federal Regulations* states "Schools participating in the NSLP are required to keep financial records to provide an audit trail that will document the nonprofit status of the school nutrition program . . . the State Department of Education, Child Nutrition Office-School Programs, requires that sponsors maintain a financial system that will, among other things, document the nonprofit status of school nutrition programs and periodic review by the State Agency of operating balances. The Bi-Annual Financial Report is used to fulfill this requirement."

The Agreement For Participation in National School Lunch, School Breakfast and After School Snack Programs between DOE and the District/Charter School states "Maintain a financial management system as prescribed under Section 210.14(c)."

SCHEDULE OF FINDINGS

Condition

Brandywine School District

The June 2007 Bi-Annual Financial Report submitted to DOE was incorrect and the closing cash balance did not agree to June operating cash balance and DFMS by \$42,271.99 (amount was over-reported).

Delmar School District

Both the December 2006 and June 2007 Bi-Annual Financial Report contained figures that were reported incorrectly. The reports contained errors with the receipt and expenditure figures reported to DOE, as well as an incorrect ending cash balance on hand for the December 2006 report.

Academy of Dover Charter School

The Bi-Annual Financial Reports contained figures that were reported incorrectly. The reports contained errors with the receipt and expenditure figures reported to DOE, as well as an incorrect ending cash balance on hand for the both the December 2006 and June 2007 reports. Academy of Dover Charter School could not provide the Bi-Annual Financial Reports for Fiscal Year 2007. However, AOA obtained the reports from DOE.

Campus Community School

The December 2006 Bi-Annual Financial Report figures were reported incorrectly. Lunch sales were over-reported by \$1,254.29; a la carte sales were underreported \$284.04; federal reimbursements were underreported by \$1,081.00; and other cash expenditures were underreported by \$110.75.

East Side Charter School

The Bi-Annual Financial Reports were not filled out properly and were not accurate. For the June 2007 Bi-Annual Financial Report, the opening cash balance for the reporting period did not agree to the closing cash balance on the December 2006 Bi-Annual Financial Report. Also, the closing cash balance on the June 2007 Bi-Annual Financial Report did not agree to the underlying accounting system, DFMS by \$20,124.77 (amount was overreported).

Marion T. Academy

The Bi-Annual Financial Reports were not filled out properly and were not accurate. For the June 2007 Bi-Annual Financial Report, the opening cash balance for the reporting period did not agree to the closing cash balance on the December 2006 Bi-Annual Financial Report. Also, the closing cash balance on the June 2007 Bi-Annual Financial Report did not agree to the underlying accounting system, DFMS by \$47,196.20 (amount was underreported).

Maurice J. Moyer Academy

The December 2006 Bi-Annual Financial Report was not filled out properly and was not accurate, and the Charter School could not provide AOA with the original signed December Bi-Annual Financial Report. The Charter School reported inaccurate cash balances in the December 2006 Bi-Annual Financial Report submitted to DOE and did not complete nor submit the June 2007 Bi-Annual Financial Report to DOE. Therefore, AOA could not determine if the June 30, 2007 cash balance was adequate but not excessive to support the Charter School's cafeteria operations. In addition, AOA noted that the ending

SCHEDULE OF FINDINGS

fund balance is not reviewed by management to determine if the balance is adequate and in compliance with federal and State regulations.

Providence Creek Academy

Both the December 2006 and June 2007 Bi-Annual Financial Reports contained figures that were reported incorrectly. Both reports incorrectly included the adult sales with the pupil sales. The adult sales are to be included with a la carte sales and special milk programs. On the June 2007 Bi-Annual Financial Report, the federal Reimbursement due to the program and the value of inventory on hand did not match the supporting records maintained by the Charter School.

Cause

The errors were due to a lack of management review, and lack of employee training on the preparation of the Bi-Annual Financial Report. District/Charter School management was not consistently reconciling their reports to the appropriate supporting documentation prior to submission to DOE. In addition, there was a lack of policies and procedures in the cases where the Bi-Annual Financial Report was not being prepared and submitted to DOE.

Effect

DOE may terminate the *Agreement for Participation in National School Lunch, School Breakfast and After School Snack Programs* immediately after receipt of evidence that the terms and conditions of this agreement have not been fully complied with by the School Food Authority (Districts/Charter Schools).

Recommendation

The Districts/Charter Schools should implement policies and procedures to ensure the Bi-Annual Financial Report is reviewed for completeness and accuracy, including a reconciliation of the report to DFMS and other supporting documentation. The Districts/Charter Schools should reconcile their reports to the supporting documentation and report any necessary adjustments to their Bi-Annual Financial Report to DOE. At the time the Bi-Annual Financial Report is completed, the Districts/Charter Schools should review the fund balance for adequacy.

Maurice J. Moyer Academy should go back to the first year of operations (2006) and recreate their Bi-Annual Financial Report and maintain with supporting documentation and either submit or resubmit to DOE.

Auditee Response

Brandywine School District

Effective immediately, Bi-Annual reports will be reconciled with DFMS. As discovered in the audit, a revision for the Bi-Annual Report (July – December FY 2007) is necessary due to an understatement of the below line items (see #1 and #2). At the end of December, an additional cash receipt for \$150,000.00 was requested to cover indirect cost expenses. The amount of the cash receipt for \$150,000.00 was reported only in the Bi-Annual Report as an expense, in addition to this amount, another \$50,000.00 cash receipt was processed for payroll purposes, totaling \$200,000.00. Due to both cash receipts being processed at the end of the month in December, the Bi-Annual Report only reported \$150,000.00 instead of \$200,000.00. This transaction did not actually process through DFMS until January 2008, and was reported again in the month of January.

SCHEDULE OF FINDINGS

Because of this error, the Bi-Annual Report indicated a closing balance in the amount of \$522,978.89 instead of \$472,978.89. Therefore, the incorrect closing balance was carried over into the opening balance for the Bi-annual (January – July) instead of the actual balance.

Per audit recommendation, School Nutrition has reconciled the June 30, 2007 Bi-annual report to supporting documentation and have attached the incorrect and the corrected report and will send adjustments to DOE by Tuesday, June 24, 2008.

Delmar School District

Delmar School District will write specific directions to be used for completing the Bi-Annual report. The Bi-Annual report for July to December 2007 has been recalculated and the corrected report has been forwarded to the Department of Education.

Academy of Dover Charter School

This issue has been discussed with ISDC and a procedure will be put in place to ensure that all documentation is appropriately distributed and maintained.

Campus Community School

Campus Community School will be using an automated lunch system for 2008-2009. The system will track daily usage and will reduce/eliminate human calculation errors. The system will be calculating the figures needed for the Bi-Annual report.

East Side Charter School

ESCS Nutrition Office will review its current practice for financial reporting and develop more solid procedures to ensure the accuracy of its Bi-Annual Report.

Marion T. Academy Charter School

Two different people worked on the June 2007 and December 2006 Bi-Annual reports using two different interpretations for completing them. One report was completed on cash basis and the other was completed using an accrual basis. The ending cash balance on the report did not agree to DFMS appropriation balance because the school, in some cases, had to use funds from another appropriation to cover the cost of the food service program. The funds in the food service appropriation were not always adequate to cover food service expenses. However, we agree with the auditor's recommendation.

Maurice J. Moyer Academy

Maurice J. Moyer Academy shall implement policies and procedures to ensure the Bi-Annual report is completed and on a timely basis and reviewed for completeness and accuracy, including a reconciliation of the report to DFMS and other supporting documentation. In addition, the school shall go back to the first year of operation (2006) and recreate the Bi-Annual reports, and maintain with supporting documentation and either submit or resubmit to the Department of Education. The School shall reconcile the report to the supporting documentation and report any necessary adjustments to the Bi-Annual report to DOE. The school shall also review the fund balance for adequacy at the time the Bi-Annual Report is completed.

All retroactive reconciliations and/or reports shall be completed by August 20, 2008.

SCHEDULE OF FINDINGS

Providence Creek Academy

Providence Creek Academy will implement a standard method of calculating as recommended by the Auditor of Accounts.

Finding #15 – Excessive Fund Balance

Criteria

Food and Nutrition Service USDA Regulation §210.14 (b) and (c) and the DOE School Year 2006-2007 *Agreement for Participation in National School Lunch, School Breakfast and After School Snack Programs* state "each school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit food service or such other amount as may be approved in accordance with §210.19(a)."

Condition

Delmar School District

Delmar School District's fund balance at June 30, 2007 was in excess of the three month average expenditures. The District could not provide any documentation that approval was received from DOE to have the excess funds on hand.

Cause

The excessive fund balance was due to a lack of management review of the Bi-Annual Financial Report and its requirements.

Effect

Delmar students could be overcharged for food and the school district could possibly lose its nonprofit status due to the excessive funds.

Recommendation

The District should evaluate why there is an excess of funds and if it is determined to be necessary, request approval from DOE. If no valid reason is found, the District should consider reducing its meal prices and monitor the fund balance accordingly.

Auditee Response

Delmar School District

Delmar School District will complete the 3-months of Operating Balance form when completing the Bi-Annual Report and will have a set plan for using funds if more than 3 months balance is on hand. The Department of Education will be provided with plans for these funds. Should the district not have a plan for the funds, the cost of meals will be evaluated.

SUMMARY OF FINDINGS

BY SCHOOL DISTRICTS/CHARTER SCHOOLS

The following table summarizes the findings by the School Districts and Charter Schools selected for the agreed-upon procedures engagement:

REPORT FINDING #	Appoquinimink School District	Brandywine School District	Caesar Rodney School District	Delmar School District	Indian River School District	Milford School District	Academy of Dover Charter School	Campus Community Charter School	East Side Charter School	Marion T Academy Charter School	Maurice J Moyer Academy	Providence Creek Academy Charter School
1	X		X	X	X	X	X	X	X		X	X
2			X				X					
3				X		X	X				X	
4			X									
5			X						X			
6											X	
7							X				X	
8											X	
9		X	X	X	X	X	X	X				
10			X	X	X		X					
11	X						X			X	X	
12							X				X	
13			X									
14		X		X			X	X	X	X	X	X
15				X								

DISTRIBUTION OF REPORT

Copies of the Department of Education's Agreed-Upon Procedures Engagement have been distributed to the following public officials:

Executive Branch

The Honorable Ruth Ann Minner, Governor, State of Delaware
The Honorable Richard S. Cordrey, Secretary, Department of Finance
The Honorable Jennifer W. Davis, Director, Office of Management and Budget
The Honorable Valerie A. Woodruff, Secretary, Department of Education
Ms. Dorcell Spence, Associate Secretary, Finance and Administrative Services, Department of Education
Ms. Trisha Neely, Director, Division of Accounting, Department of Finance

Legislative Branch

The Honorable Russell T. Larson, Controller General, Office of Controller General

Other Elective Offices

The Honorable Joseph R. Biden III, Attorney General, Office of the Attorney General
The Honorable Jack Markell, Treasurer, State Treasurer's Office

Other

Ms. Huida Harris Russell, Education Associate, Child Nutrition, Department of Education
Dr. John Marinucci, Director, Financial Management, Department of Education
Dr. Tony J. Marchio, Superintendent, Appoquinimink School District
Dr. James Scanlon, Superintendent, Brandywine School District
Dr. Kevin R. Fitzgerald, Superintendent, Caesar Rodney School District
Dr. David C. Ring, Jr., Superintendent, Delmar School District
Dr. Susan S. Bunting, Superintendent, Indian River School District
Dr. Robert D. Smith, Superintendent, Milford School District
Mr. Leonard Litzi, Principal, Academy of Dover Charter School
Ms. Trish Hermance, Administrator, Campus Community Charter School
Mr. David Distler, Executive Director, East Side Charter School
Dr. William Brunson, Head of School, Marion T. Academy Charter School
Mr. Theopalis K. Gregory, Sr., Director, Maurice J. Moyer Academy
Mr. Charles E. Taylor, Director, Providence Creek Academy Charter School